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Monthly Letter on
Economic Conditions Government Finance

New York, July, 1953

General Business Conditions

THE month of June has been another period of good trade and industrial reports, with business in general holding the high plateau of the past six months or so. Despite widespread feeling that this record-breaking activity represents the top of a boom, and is borrowing something from the future, there are few signs that any great falling off is imminent. In July vacation shutdowns will reduce industrial operations and affect the indices. Apart from this temporary influence, curtailment in consumers' durable goods including automobiles is expected as time passes, and is already effective to a modest extent in a few lines. But order books in most industries are well filled. If new business is a little slower the slackening seems neither substantial nor significant. In most merchandise markets supply and demand are well balanced. Buyers are not lengthening commitments or building up inventory alarmingly; on the contrary, their policies with respect to staple goods and materials are on the conservative side. Retail trade reports continue very good, as would be expected from the record-breaking employment and national income totals.

In the headlines, international developments, pointing — if at times dubiously — toward a Korean truce and some easing of the tensions of the cold war, have had a prominent place; and they have tended to keep market sentiment uncertain and cautious, in the belief that government demand for goods and services may slacken. On the other hand, the best estimates of defense expenditures indicate that the effects of retrenchment cannot be pronounced for some time, and that defense requirements will hold near present levels for another nine to twelve months. Under the circumstances the question whether private demands will fill the gap when defense demands slacken still does not seem of major urgency, however important it may become in 1954.

On the positive side, sentiment has been heartened by developments in the money markets. The previous issue of this Letter told a story of bond markets in rapid retreat and fears of a severe money squeeze in the fall, but Federal Reserve purchases of government securities and reduction of member bank reserve requirements now indicate that the authorities never intended to push restrictive policy to the extremes then feared. A better understanding of credit policy, with correspondingly less apprehension of a squeeze on trade and production, is likely to prevail hereafter. However, sentiment should not swing so far as to assume that a tendency toward excessive credit expansion would not be met by appropriate restrictive measures.

The Half-Year's Record

The first half of 1953 has been a period of extraordinary business activity in this country. New records have been set in production, trade, employment, money incomes, and almost every other measure of the kind. Most segments of the

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economy have gone forward together. Farm income has run counter to the trend, but without much effect on general trade. Speculative activity by all signs has played only a minor part in the boom, inasmuch as inventory increases have been moderate and largely confined to metalworking and defense plants.

This activity has had the support of sustaining influences of great force. One is the high level of government purchases of goods and services. Another is the record-breaking volume of business investment in new plant and equipment. Along with these, and in part flowing from them, has been an immense amount of other types of construction and a volume of consumer purchases, of both durables and nondurables, which also has set new records.

In two respects business has been supported by elements of demand which are not expected to hold at present levels indefinitely. One is the replenishment of steel inventories depleted by last year's strike. This has been a significant, though not easily measured, part of the steel demand during the half year, which possibly has been augmented by anticipation of the recent wage increases and price advances. The second is the rise in sales of automobiles and other consumers' durable goods, to the extent that it represents a seasonal concentration of demand and depends upon a continuous expansion of consumer borrowing. In judging the prospect for business toward the end of the year, most observers would subtract something from consumers' durables and from steel mill activity. There may also be some significance in the fact that the number of housing units started in May, 107,000, was 3,000 less than in April, the first April-May drop since the end of the war.

Capital Goods Still Active

From the capital goods section of the economy, reports continue to justify optimism. Capital expenditures are at once a means of getting higher productivity and an essential support to demand, and when they begin to decline general business undoubtedly will be retarded. Despite predictions of recession, the immediate prospect continues good. During the month the Department of Commerce and the Securities & Exchange Commission have reported the results of another survey of intended plant and equipment expenditures which yields figures even higher than those indicated by their March survey. For the first nine months of the year an increase of 7 per cent over the same period of 1952 is indicated.

Historically, a downturn in capital expenditures has taken place fairly slowly. In 1949 no marked decline took place until three calendar quarters after the general business turn. Expenditures by public utilities, as anticipated, are higher than a year ago by some 23 per cent. Manufacturers are spending 7 per cent more than a year ago, and more than they expected to according to a survey made last fall.

The prospect for continuation of these expenditures at a high level supports the opinion that the drive to expand and modernize is derived only secondarily from cheap money. Its primary propelling force is the need to keep productive facilities abreast of rising population and expanding markets; to keep costs down despite high money wages in order to maintain competitive positions; and, finally, to embody in everyday industrial practice the fruits of technological progress both in the development of new products and in the application of new labor saving methods. Whether this drive is strong enough to keep going in the face of higher financing costs is a question to which no certain answer can be given, but for the moment investment programs are still moving ahead.

Bond Market Steadies

June brought a halt to the previous five months' accelerating decline in bond prices. Improved sentiment was most conspicuous in the market for U.S. government obligations but it also permeated into corporate bonds. State and municipal obligations remained under pressure of continued heavy offerings though even here sentiment seemed a little less gloomy toward the close of the month. One factor in the turn was some feeling — reflected also in the stock market — that business volumes might ease off in the months ahead, relieving the strain of private demands on the money and capital markets and leading the Federal Reserve authorities to ease their policy. Other influences were a withdrawal of some projected bond flotations combined with a broadening demand for top grade corporate issues.

Still another factor, and one of most critical importance, was steady buying of Treasury bills for the account of the Federal Reserve Banks. These purchases, which totaled $735 million from May 6 to June 24, were interpreted as an indication that the authorities were mindful of the dangers inherent in the excesses of pessimism which had afflicted the market as well as willing to supply additional funds required to finance seasonal credit requirements in the months ahead. On June 25 the Federal Reserve Board confirmed these impressions by easing member bank cash reserve requirements, effective July 1

and 9, thus releasing $1.1 billion funds previously required to be held uninvested. In announcing this action, the following explanatory statement was issued:

> This step was taken in pursuance of Federal Reserve policy, designed to make available the reserve funds necessary to meet the essential needs of the economy and to help maintain stability of the dollar. The reduction, releasing an estimated $1,156,000,000 of reserves, was made in anticipation of the exceptionally heavy demands on bank reserves which will develop in the near future when seasonal requirements of the economy will expand and Treasury financing in large volume is inescapable. The action is intended to provide assurance that these needs will be met without undue strain on the economy and is in conformity with System policy of contributing to the objective of sustaining economic equilibrium at high levels of production and employment.

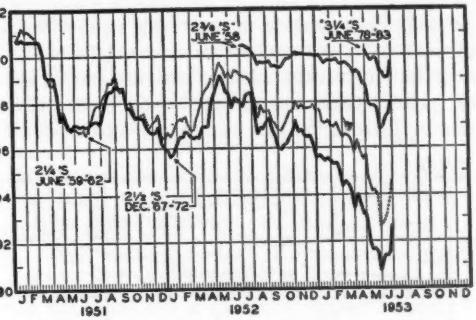
Treasury Secretary Humphrey, in answer to inquiries, issued the following statement:

> The Federal Reserve Board acted on its own responsibility but after full consultation with the Treasury. Its action is an orderly continuation of the standing policy of providing the reserves needed for seasonal demands of business and finance and for necessary Treasury financing. The action is entirely consistent with the policy of restraint of inflation without too drastic credit restrictions.

The Treasury helped the bond market regain its bearings by allowing its cash balances to decline, limiting its borrowings in the market to Treasury bills, and tiding itself over the strain of semi-annual interest payments due June 15 to a larger extent than usual by direct borrowing from the Federal Reserve. At the close of the month the direct borrowings, which reached $1,172 million June 16, were extinguished and the Treasury was developing plans to return to the market with a short-term offering.

Recovery from June 2 Lows

The chart shows the recovering tendency in government bond prices during June. The figures plotted are bid prices at the close of the market each Friday and do not record the extreme lows which occurred during the course of trading on Tuesday, June 2. At that time, bid prices temporarily retreated to as low as 98 14/32 for the new 30-year 3¼s, 89⅞ for old War Loan 2½s, and 92 for War Loan 2¼s of 1962. Purchases of the 3¼s by Treasury trust funds and insurance companies helped turn the tide. Also, the Federal Reserve accelerated its purchases of Treasury bills, which had been started on a small scale early in May. These purchases were continued throughout June, at an average rate exceeding $100 million weekly. By replenishing bank reserves, they relieved the bond market of selling pressure originating with banks, gave the latter an easier feeling about their ability to meet credit demands, and enlarged resources for temporary bank financing of private projects requiring bond issues.



Closing Bid Prices, Selected U. S. Government Bonds

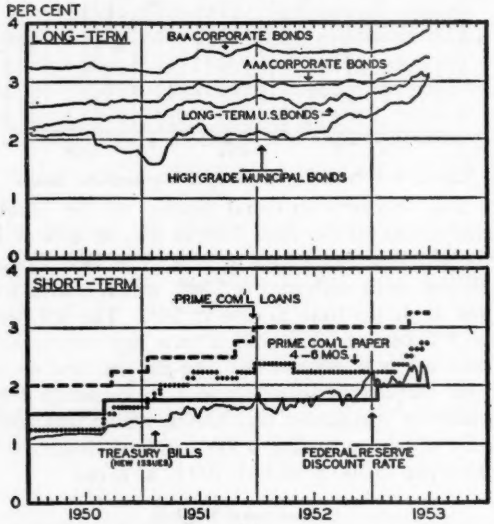
The recovery in bond prices, as the chart shows, moved the new 30-year 3¼s to 99¾ and the old War Loan 2½s to 92¾. The War Loan 2¼ per cents maturing in 1962, which traded as low as 92 on June 2, rose to 94⅝. The 2⅞ per cent bonds of 1958 sold a year ago recovered from a low of 96¼ to 98. The 2⅝ per cent one-year certificates issued June 1 in exchange for maturing certificates and bonds, which had had only a fair reception upon issuance, improved from par to 100 6/32 bid, 100 8/32 asked.

Rates and Yields

As prices bottomed out on June 2, fully taxable government bonds maturing in nine years could have been bought to yield 3¼ per cent; the 30-year 3¼s offered a return of 3.33 per cent. Five-year government maturities traded to yield 3 per cent and 1954 maturities to yield 2⅝ per cent. The 91-day Treasury bills dated June 4 were sold June 1 at a record yield of 2.42 per cent. On a before-tax basis, the general structure of yields on governments was the highest since early 1934. On an after-tax basis, the longer-term yields fell short of those available in the period 1934-38 when at least partial tax exemption was the rule on Treasury offerings, tax schedules were decidedly easier, and coupon rates on new bonds offered ranged between 2⅛ and 3¼ per cent.

Yields on government securities moved lower as prices improved during the course of June. The sharpest declines were in the shortest term obligations. Treasury bills, influenced by Federal Reserve buying and the easier money market position, moved from their peak of 2.42 per cent on the issue dated June 4 to below 2 per cent. Yields on government bonds in many cases declined a full ¼ per cent from the top levels of June 2.

As the second chart shows, yields on seasoned corporate and municipal bonds continued their rise during June although in the case of corporate obligations, at least, this movement appeared to be mainly a matter of catching up to the increases in rates that had already occurred in the new issues market. A succession of new issues of prime-grade corporate bonds were placed during June in the rate range of 3¾ to 4 per cent.



Bond Yields and Short-Term Money Rates, Weekly

While State and municipal borrowers have tended to go ahead with their bond issues in the face of unreceptive conditions, a number of corporations planning bond flotations found it desirable or necessary either to take a second look at their requirements schedule or to arrange temporary financing until more receptive market conditions develop. In the mortgage market, many reports were heard of a tightened supply of funds.

Easing of Credit Policy

What these things add up to is the conclusion – if it needed to be proved – that a firm credit policy under conditions of strong credit demands provides a real brake on inflation. At the same time a number of observers expressed fears that the stringency in the money and credit markets might have gone too far, threatening a sharp spill in business. The Federal Reserve authorities, in their purchases of Treasury bills to ease the strain, and more emphatically in the relief they have afforded the banks on their reserve requirements, have indicated sympathy with this viewpoint. One of the biggest merits in the Federal Reserve's machinery of credit control is that its restraints can be adjusted quickly to changes in the economic tempo.

Should business in fact contract in the months ahead, the July reduction in reserve requirements, followed perhaps by further actions along the same line, may be construed by economic historians of the future as a timely move toward the support of high level production and employment. On the other hand, apart from its useful function of arresting a build-up of fear psychology in the credit markets, the action fits just as well into a picture of fully sustained business activity. The additional Federal Reserve funds needed to take care of normal second half-year currency and credit demands, inclusive of the Treasury's normal seasonal deficit, approach $3 billion. The reduction of reserve requirements covers this amount to the extent of hardly more than one-third. Thus the relief granted the banks at this time by no means forecloses the possibility of a renewed tightness in the money markets as the year wears on. The likelihood of such a development is contingent upon the strength of business and credit demands.

The Debtor and the Creditor

"Neither a borrower, nor a lender be" is acceptable today only as a counsel of discretion in incurring debts and credits. Our vast apparatus of production and distribution is barren without a flow of credit to give it life. This has been demonstrated many times when the credit supply, overtaxed, has dried up and brought industry to a halt.

In a well ordered economy credit has to be kept in some kind of balance. To be sure, the total of debts necessarily is equal to the total of credits. But it always takes some disappointed borrowers or lenders to maintain the equality. The achievement of the equality also requires fluctuations in interest rates, which represent the price of credit, and act as a barometer of the credit market. At times, governments rig the interest rate barometer in favor of themselves and other debtors and accommodate excessive credit demands by printing noninterest-bearing notes for circulation as money and for use as bank reserves.

Inflating the currency is the cheapest – and most destructive – way to provide a credit supply. It erodes the value of saving, stimulates speculation, and whips up an unnatural demand for credit. Eventually interest rates are driven higher than they would otherwise need to be – at least until deflation intervenes as the only force that can subdue the swollen demands for

credit. The lot of the debtor is not a happy one when credit inflation is replaced by deflation; he would have been better off if the creditor had been more restrictive and rejected his credit applications before he went beyond his depth in debt. Equally painful is the lot of the workman thrust out of a job and the employer forced into bankruptcy. And even these pains rarely give back to the creditor what inflation has stolen from him.

The Administration in Washington is committed to maintaining a stable value for the dollar, and avoiding the twin evils of inflation and deflation. Hence the rising tendency of interest rates, a reflection of excess demands for credit which the authorities are unwilling to feed by the familiar device of currency inflation.

Credit is as complicated as it is essential. Debtor-creditor relationships are not widely understood, as witness recent allegations that higher interest rates bear down on the many debtors for the benefit of the few creditors. The actual fact is that the rank and file of citizens are creditors and to a larger extent than they realize. Their failure to recognize this stems from the fact that they so largely put their funds in the hands of financial institutions which make a business of lending the people's money.

The Government Debtor

The predominant creditor position of the individual stems mainly, though not entirely, out of the fact that government is so heavily a debtor. The Federal Government has no less than $265 billion of interest-bearing debts outstanding, not to mention its noninterest bearing obligations in the shape of circulating notes, and heavy contingent obligations through guarantees on veterans' loans, mortgage insurance, etc. State and local governments stand in debt today to the tune of nearly $30 billion. These figures overshadow the creditor interest of government which is somewhat vague in any event because many of its "loans" are extended without obligation of repayment and hence are loans in name only.

When people think of creditors they generally think of banks and other financial institutions. These, however, are essentially intermediaries; they are as much debtors as creditors. Indeed, so far as the public is concerned, banks owe much more money than is owed to them. The insurance companies accumulate and invest funds for the security and benefit of their policyholders. Pension funds do the same for their beneficiaries and savings and loan associations for their shareholders. Instalment credit companies and personal loan companies, etc., borrow to lend. The networks become complicated: for example, an instalment credit company will augment its capital — which represents a creditor status of its shareholders as well as equity in the enterprise— by borrowing from insurance companies and banks. These lenders in turn represent the creditor interests of policyholders and depositors.

The Business Debtor

Outside the field of finance, where debts and credits tend to counterbalance, business firms generally owe more than they have owed to them. This is most consistently true of railroad and public utility enterprises though a predominantly debtor status is by no means restricted to these areas. Manufacturers often float bond issues or take recourse to borrowing from banks to carry inventories. Practically every business has accrued payroll and tax liabilities, and trade accounts payable as well as receivable.

The following table, drawn from Securities and Exchange Commission data, shows the predominantly debtor position of nonfinancial corporations in the United States. Since business is largely organized in the corporate form, the data are indicative of the position of business outside the field of finance. These corporations, taken as a group, have bond and mortgage debt of $70 billion, and accounts and notes payable of $61 billion. Tax, payroll and other liabilities produce total debts of $167 billion, which is $47 billion greater than the credits owed to them.

The Nonfinancial Corporation — A Debtor on Balance

(Estimates for Dec. 31, 1952 in Billions of Dollars)

Credits		Debts	
Cash & bank deposits	$31	Bond and mortgage debt	$70
U. S. Govt. securities	21	Accts. & notes payable	61
Accts. & notes receivable	66	Federal tax liability	17
Other	2	Accrued payrolls, etc.	19
	$120		$167

Sources: Securities and Exchange Commission, except that bond and mortgage debt of corporations is estimated by this bank.

The Individual

If both government and business are debtors on balance, the creditor has to be the average citizen. A great deal of attention has been devoted recently to the postwar rise in his indebtedness. But he has been saving, too, and his credits surpass his debts by a wide margin.

The following table, drawn from various official sources, sets out approximate totals of individual debts and credits. The Bureau of the Census reports that in 1950, 44 per cent — 7,651,000 out of 17,531,000 — owner-occupied nonfarm homes were mortgaged. No more recent figures are available on the number of mortgaged homes which doubtless has been tending to rise

with the heavy scale of building. The Federal Home Loan Bank Board has estimated total indebtedness on one-to-four family nonfarm homes as of December 31, 1952 at $58 billion. This total includes some amount of business borrowing where the owner rents rather than occupies the mortgaged home.

The Individual — A Creditor on Balance
(Estimates for Dec. 31, 1952 in Billions of Dollars)

Credits		Debts	
Life insurance & pension equities	$120	Nonfarm home mortgages	$58
Currency	25	Farm mortgages	7
Demand deposits	39	Other debt of farmers	8
Savings deposits	63	Instalment debt	19
Savings & loan shares	19	Charge account debt, etc.	7
Savings bonds	50		
Other U. S. securities	16		
State & municipal sec.	11		
Mortgage loans	20		
	$363		$99

Note: The figure for demand deposits covers individuals including farmers. Other credits figures include, as well, unincorporated business outside farming.

Sources: Securities and Exchange Commission, Home Loan Bank Board, Federal Reserve Board, U. S. Department of Agriculture.

The farmer tends to be a debtor but more in his role as businessman than as consumer. He borrows to cover the heavy capital requirements of land and equipment, to pay for seed and fertilizer, and to carry along until crops and livestock mature and can be marketed. The figures shown in the table for farm debt — $15 billion in all (exclusive of C.C.C. loans which the farmer has no obligation to repay) — are the estimates of the Bureau of Agricultural Economics for January 1, 1953. Surprisingly enough, this same agency estimates farmers' holdings of bank deposits, currency, and United States Savings bonds at $21½ billion — to say nothing of other bonds, mortgages, and life insurance. Thus, contrary to many popular impressions, the farmer stands as a creditor, a result of prudent saving habits in a prolonged period of prosperity.

The final items of individual indebtedness shown on the table are the Federal Reserve's estimates for consumer credit totaling $26 billion, divided between instalment debt on the one hand and charge accounts and other debt on the other. This debt is widely distributed; for most people consumer debt is the only debt they owe. Studies indicate that younger people setting up homes are among the relatively heaviest borrowers but that comparatively few individuals or families have at any one time consumer debts exceeding $500 or perhaps 10 per cent of income. A family emergency, the purchase of a new car, or the outfitting of a new home may temporarily push the figure higher but monthly payments work the totals down.

The general observation also is pertinent that, apart from family emergencies which provide its highest justification, individual debt mainly is incurred as a means of acquiring desirable assets. The borrower necessarily possesses a credit rating based not only on character but on resources and income flow. The biggest individual debtors are people who possess wealth, income, abilities and prospects beyond the average of all the people. The individual who feels the greatest impact of a tightened credit supply is the one who tends toward over-optimism on ability to repay and borrows up to the limit of his credit standing.

Credits Dwarf Debts

When the average individual totals up his creditor interests he finds that they far exceed his indebtedness. Against the calculated $99 billion total of individual debts, the credits run to $363 billion — better than three times as much.

The idea that we have in this country any class of "bloated bondholders" ought long ago to have been exploded. The idea that creditors are few, nevertheless, persists. The simplest explanation is that the number of institutions that make lending their business does not exceed 50,000. What is commonly overlooked is that such institutions are simply intermediaries. When banks make loans the ultimate creditors are the depositors, whose accounts numbered 111,000,000 on the Federal Deposit Insurance Corporation's last count two years ago. The credit appraisal, in protecting the strength and solvency of the bank, protects the depositor's right to get his money back any time he wants it and to get the interest rate return promised him on his savings account. Similarly, life insurance companies lend funds which essentially belong to policyholders, estimated to number 88,000,000.

The comparatively newest creditor interest is that represented in pension rights. Some pension funds are administered by private insurance companies, others are set up as trust funds and administered by boards of trustees. The mushroom growth of private pension funds is well known. Their resources, now $12 billion, are held for the benefit of 10,000,000 employees. They supplement the federal old-age trust fund which holds $18 billion in government securities and covers 47,000,000 persons. Pension rights, no less than life insurance benefits, represent a creditor interest of the individual. The Securities & Exchange Commission values life insurance and pension equities together at $120 billion.

Individuals, as creditors, hold $102 billion in deposits with banks, $66 billion in U.S. Government securities, $20 billion in mortgage loans, and $19 billion in savings and loan associations.

The Creditor and Sound Money

In the background of these figures it should be clear that the interest of the people as a whole lies in sound money policies which will protect the real values of savings, rights and benefits accumulated over the years. Inflation can wipe them out swiftly, as experience in so many foreign countries has shown. When people begin to distrust the value of tomorrow's dollar the whole economic machine is thrown out of gear as effort is diverted from production to bidding up prices. If any individual finds profit in this it is the shrewd speculator — not the average citizen who needs a currency he can trust as a basis for security.

The "creditor class" is well-nigh universal. And the citizen's personal interest in sound money parallels his interest in national strength and security.

More on Farm Price Supports

The April issue of this Letter discussed the undesirable effects of high support prices for butter. At that time the Commodity Credit Corporation had purchased 132 million pounds under its current buying program, and its stocks on hand totaled 110 million. In the ensuing three months total purchases have been increased to more than 270 million pounds, equivalent to nearly 22 per cent of the 1952 creamery butter output. To reduce C.C.C. stocks, donations of 74 million pounds to charitable institutions and to school lunch programs have been approved, and 50 million pounds have been earmarked for sale to the armed forces at 15¢ per pound.

Meanwhile, production is running ahead of a year ago and C.C.C. stocks will probably continue to increase during the rest of the summer. Obviously much more butter will have to be given away, sold at a loss, or perhaps allowed to spoil, adding heavily to the losses already incurred. The high price support discourages consumption of butter, encourages the use of margarine, and at the same time maintains butter production. It subsidizes the butter producers directly and the margarine industry indirectly, and is a burden to everyone else. It postpones adjustments and perpetuates rather than overcomes the difficulties of the butter market.

Surplus Problems Becoming General

Unfortunately, the problems of surplus production and disposal which are exemplified in the butter situation are becoming general. Under the loan and purchase programs to which the Government is committed by law, stocks of many commodities are piling up in government hands. The report of the C.C.C., as of April 30, showed more than $3.1 billion tied up in price support programs ($1.9 billion in loans and $1.2 billion in inventories) against $1.6 billion a year earlier. The following table gives the composition of these totals:

C.C.C. Inventory and Loan Position

(In Millions of Dollars)

	Inventory		Loans Outstanding	
	Apr. 30, 1953	Apr. 30, 1952	Apr. 30, 1953	Apr. 30, 1952
Corn	$409.1	$565.6	$425.8	$ 67.3
Wheat	314.8	219.6	779.9	217.1
Cottonseed Oil	115.7	8.2	—	—
Butter	86.1	—	—	—
Dried Milk & Cheese	68.0	4.0	—	—
Linseed Oil	54.9	58.3	—	—
Cotton Linters	36.5	2.8	—	—
Cotton	32.7	0.5	306.6	58.3
Cottonseed Meal	21.8	—	—	—
Naval Stores	12.3	12.1	12.1	0.7
Wool	11.9	—	57.9	—
Peanuts	11.6	26.6	11.1	10.5
Tobacco	1.2	1.0	223.3	197.7
Other	54.6	90.1	92.7	68.8
Total	$1,226.2	$988.8	$1,909.4	$620.4

	Apr. 30, 1953	Apr. 30, 1952
Total Investment	$3,135.6	$1,609.2

Later figures when available will show a further rise, for during the past two months C.C.C. acquisitions have continued. The 1953 grain and cotton harvests are almost certain to build stocks to new highs, for plantings have been heavy, and if yields are good and enough storage provided, further sizable quantities will go under price support and eventually into government ownership. Thus the taxpayer faces up to the unpleasant prospect of seeing even more billions — money which might have become available for tax relief — used to sustain farm price supports.

In addition to the strain on the federal budget, other effects naturally to be expected from the continuation of high, rigid support prices are to be seen. Exports of farm products are being retarded. Restrictions on imports, which run contrary to the Administration policy of encouraging trade, are required to keep an influx of foreign supplies from depressing prices and adding to the price support burden. Finally, forced curtailment of production, by setting quotas for individual producers, must be put into effect again in such staples as wheat and cotton; otherwise the surpluses threaten to become utterly unmanageable.

High Supports Retard Farm Exports

In the twelve months ended June 30, 1953 agricultural exports are estimated at $2.9 billion against slightly over $4 billion in the preceding year. This drop cannot be attributed wholly to our support prices, for importing nations have been working down previously accumulated inventories, and foreign crops have been better. However, such changes in international markets

call for price and crop adjustments here, and the effect of the supports is to delay or inhibit such adjustments. Relatively high prices for American farm products must in the end close foreign markets to them. Leading farm organizations long ago recognized the dangers. Herschel D. Newsom, Master of the National Grange, told the Senate Agricultural Committee earlier this year that "we are pricing ourselves out of the world market".

In recent years maintenance of farm exports has required a variety of loans, grants and subsidies by government agencies. One of the most expensive of these programs has been the International Wheat Agreement. Since United States wheat prices during the four-year term of the current pact, which expires July 31, have been well above the maximum price of $1.80 a bushel (basis Fort William – Port Arthur, Canada), our Government has made up the difference with a subsidy. Exports under the agreement have totaled over 900 million bushels, involving a subsidy of $550 million during the four years.

Extension of the wheat agreement for three more years has been approved by delegates from 45 of the 46 member nations, including the United States though the Senate has not yet ratified the extension. Under the new agreement the maximum price is increased 25¢ to $2.05, and the amounts which we pledge ourselves to export at that price will be smaller, inasmuch as Great Britain, the largest importer, has elected to stay out. In both these ways the required subsidies will be reduced. Likewise, our exports will be lower.

Conflict with Trade Policy

High and rigid support prices also tend to attract to our own markets cheaper competing farm products from other nations, thereby increasing the quantity of domestic commodities tendered to the C.C.C. under the support programs. To that extent the United States holds an umbrella over some of the farm surpluses of other countries as well as over its own.

Under these circumstances Secretary Benson, while approving the one-year extension of the Reciprocal Trade Agreements Act, has been forced to call for restriction of agricultural imports, which the President is empowered to impose (under Section 22 of the Agricultural Adjustment Act) when imports interfere with domestic price supports. Acting on findings by the Tariff Commission, President Eisenhower on June 8th announced import curbs effective July 1st; these in effect continue the restrictions on imports of dairy and some other products (tung nuts and oil now excepted), which were imposed by the so-called "cheese amendment" (Section 104) of the Defense Production Act, and which otherwise would have expired June 30. Such restrictions conflict directly with the Administration's avowed "trade, not aid" program and with its broader international policies.

Control of Farm Production

The third major consequence of high and rigid price supports is that they are leading straight to regimentation of farmers through production and marketing controls. The swing is again toward a condition in which "every plowed field would have its permit sticking up on its post," as Mr. Henry A. Wallace said when he was Secretary of Agriculture nearly twenty years ago; and in which all growers of the crops affected will be equally subject to restriction, regardless of the fact that some are better farmers than others, have better land and follow better practices, and achieve lower costs of production.

In wheat and cotton, efforts to obtain voluntary acreage curtailment this year have been largely ineffective. Former Secretary of Agriculture Brannan last July announced a national wheat production goal for 1953 of 72 million acres, 8 per cent below 1952. But winter and spring plantings for this year's crop totaled around 78 million acres. Similarly, the present Secretary early this year appealed to cotton farmers to reduce 1953 acreage 18 per cent. This appeal apparently has not been heeded either.

As a result, Secretary Benson has had no alternative but to make plans to restrict 1954 wheat and cotton crops, and perhaps corn also, in addition to tobacco and peanuts which are already under controls. He is expected to proclaim marketing quotas on the 1954 wheat crop which, to become effective, must be approved by two-thirds of the wheat growers who vote in a referendum. If marketing quotas are disapproved, producers will be subject only to acreage allotments, but the price support will drop to 50 per cent of parity.

Approval of quotas is expected. But despite the fact that the record supply of wheat for 1953-54 is far above anticipated requirements, the tendency to resist adjustments is apparent. During the past month the House has passed a bill raising the minimum national wheat acreage allotment from 55 million to 66 million acres, and to exclude farmers producing less than 25 acres or 400 bushels of wheat from voting in the referendum.

The increasing surpluses of farm products, and the emerging evidence of the long-run effects

of high and rigid price supports, together make it clear that the time has come for review of farm price policy. The C.C.C. once before held more than $4 billion of commodities in stock, in early 1950. It was bailed out then by the rise in demand after the Korean war began. It can be bailed out now, if high supports continue, only by an equivalent emergency demand, severe crop failure, or regimentation of farmers.

In the end, acreage allotments and marketing quotas may become distasteful enough to farmers to abate the opposition to a change to flexible price supports, but thus far there is little sign of yielding. By contrast with price supports fixed by law at 90 per cent of parity, flexible supports could shift as market adjustments became necessary, moving down as surpluses accumulated and up as it became desirable to stimulate production.

The anomaly of the present situation is that Secretary Benson and the Administration generally favor flexible supports; the American Farm Bureau Federation and the National Grange favor them; almost all economists favor them; the consuming public and taxpayers have every reason to favor them. Nevertheless, some farm groups and Congressmen of both parties cling to high rigid supports.

Million-Dollar-a-Day Businesses

During the latter part of World War II the largest department store in New York City made news when its sales during the Christmas season hit $1 million in a single day. In the postwar boom, the growth of business, and price and income inflation, have swollen dollar sales volumes in almost all lines. Last year there were more than 100 corporations whose average daily sales exceeded $1 million.

These large-scale enterprises play an immense part in the country's economic activity. Practically everybody depends, directly or indirectly, upon the goods and services which they produce. Taken together, their own employes run into the millions, as do their shareholders. Other millions are engaged in supplying them with raw materials and parts, machinery and equipment, and commercial and professional services. A host of federal, state, and local tax collectors look to them to mail in the biggest checks when tax payments fall due.

The 100 largest U.S. corporations are given in the accompanying list, based upon total sales or revenues reported for the year 1952, which ranged from a minimum of $383 million all the way up to over $7 billion. It includes 77 in manufacturing, 15 in retail and wholesale trade, 6 railroads, and 2 public utility systems.

Total Sales or Revenues, 100 Largest American Corporations as Reported for Year 1952 (In Millions)

Manufacturing	
Allied Chem. & Dye Corp.	$ 497
Allis-Chalmers Mfg. Co.	516
Aluminum Co. of Amer.	584
American Can Co.	622
American Metal Co.	453
Amer. Smelt. & Ref. Co.	476
American Tobacco Co.	1,067
Anaconda Cop. Min. Co.	483
Armco Steel Corp.	524
Armour & Co.	2,185
Atlantic Refining Co.	613
Bendix Aviation Corp.	510
Bethlehem Steel Corp.	1,702
Boeing Airplane Co.	740
Borden Company	770
Caterpillar Tractor Co.	478
Chrysler Corp.	2,609
Cities Service Co.	909
Cons. Vultee Aircraft Cp.	391
Continental Can Co.	480
Continental Oil Co.	399
Cudahy Packing Co.	563
Deere & Co.	385
Distillers Corp.-Seagrams	742
Douglas Aircraft Co.	524
Dow Chemical Co.	414
E. I. du Pont de N. & Co.	1,613
Eastman Kodak Co.	575
Firestone Tire & Rub. Co.	969
General Electric Co.	2,652
General Foods Corp.	701
General Mills, Inc.	469
General Motors Corp.	7,645
B. F. Goodrich Co.	627
Goodyear Tire & Rub. Co.	1,143
Gulf Oil Corp.	1,539
Inland Steel Co.	460
Inter. Harvester Co.	1,215
Inter. Paper Co.	634
Jones & Laughlin Stl. Cp.	497
Kennecott Copper Corp.	477
Liggett & Myers Tob. Co.	604
Lockheed Aircraft Corp.	440
Natl. Dairy Prod. Corp.	1,145
Natl. Distil. Prod. Corp.	470
National Steel Corp.	553
Phillips Petroleum Co.	728
Pitts. Plate Glass Co.	407
Procter & Gamble Co.	818
Radio Corp. of America	694
Ralston Purina Co.	420
Republic Aviation Corp.	412
Manufacturing—continued	
Republic Steel Corp.	$ 925
R. J. Reynolds Tob. Co.	881
Schenley Industries	426
Shell Oil Co.	1,143
Sinclair Oil Corp.	856
Socony-Vacuum Oil Co.	1,622
Sperry Corp.	396
Standard Brands, Inc.	383
Standard Oil Co. of Cal.	1,087
Standard Oil Co. (Ind.)	1,617
Standard Oil Co. (N. J.)	4,157
J. P. Stevens & Co.	387
Studebaker Corp.	586
Sun Oil Co.	617
Swift & Co.	2,597
Texas Company	1,588
Tide Water Assoc. Oil Co.	429
Union Carbide & Car. Cp.	979
United Aircraft Corp.	668
U.S. Rubber Co.	853
U.S. Steel Corp.	3,137
Western Electric Co.	1,319
Westinghouse Elec. Corp.	1,463
Wilson & Co.	827
Youngstown S. & T. Co.	440
Trade	
Allied Stores Corp.	502
American Stores Co.	542
Anderson, Clayton & Co.	893
Federated Dept. Stores	448
First National Stores	425
Great A. & P. Tea Co.	3,756
Kroger Company	1,052
McKesson & Robbins	437
May Dept. Stores Co.	449
Montgomery Ward & Co.	1,085
National Tea Co.	406
J. C. Penney Co.	1,079
Safeway Stores	1,630
Sears, Roebuck & Co.	2,937
F. W. Woolworth Co.	713
Transportation	
Atchison, Topeka & S.F.	605
Baltimore & Ohio RR.	452
New York Central RR.	903
Pennsylvania Railroad	1,065
Southern Pacific Co.	700
Union Pacific Railroad	520
Public Utility	
Amer. Tel. & Tel. Co.	4,040
Cons. Edison Co. of N.Y.	435

Table excludes Ford Motor Company which does not publish sales figures but reported total assets of $1,584 million at end of 1951.

An examination of the list shows that these companies take in a lot of money indeed. But a perusal of their 1952 annual reports shows that they paid it all out again — for purchases, wages, taxes, improved plant, dividends — and more besides of borrowed money. Many now include as a regular feature of their annual reports a summary in table or chart form giving the disposition of the income dollar, which is generally comparable with those of medium-size and small companies in the same line of business.

Combined sales or revenues of the 100 largest companies in 1952 aggregated $102 billion. As a result of the great expansion during and since

the war, last year's sales total was about 4.3 times that of 1939.

Over $1 billion in sales last year was reported by no fewer than 29 companies in the group. In 1939 there were but two companies of that size. Sales of the 29 top companies in 1952 were 4.2 times those of 1939, about the same rate of increase as for the whole group.

Competitive free enterprise is dynamic and the successful firm has to keep constantly alert to the possibilities of developing new and improved products, processes of production, and methods of distribution. This is true of business in every size range. It applies not only to smaller firms – which have the biggest potentialities for growth – but also to the largest enterprises which have established trade positions to defend against competition from all quarters. In the case of the chemical industry, for example, du Pont estimates that over one-half of its sales are in products not in existence 25 years ago. The General Foods Corporation reports that, of its $701 million sales in 1952, over $116 million was accounted for by products introduced since the end of World War II.

Employes and Capital Investment

The 100 largest companies report total assets at the end of last year of $86.9 billion – an average of $869 million per company. They employ a total of 5,860,000 men and women – an average of 58,600 per company. Thus their total assets represent a capital investment per employe averaging about $15,000 for the group as a whole, though varying widely among major lines.

For the 77 big manufacturing companies represented, the investment per worker averages $14,000, but ranges from around $4,000 in aircraft, and $8,000 in food, automobiles, tires, and electrical equipment, up to $12,000 in steel, and $18,000 in non-ferrous metals and in chemicals. It rises to $38,000 in petroleum and distilling, and $46,000 in tobacco products.

Among lines other than manufacturing, the investment per job ranges from an average of $8,000 for the retail and wholesale trade companies to $18,000 for the Bell Telephone System, $24,000 for the railroads, and $52,000 for the Consolidated Edison Company of New York.

Of the $86.9 billion total assets, $45.1 billion or slightly more than half is represented by net property account – land, buildings, and equipment, less accrued write-off for depreciation. Most of the remainder is in the form of current assets needed for carrying on the business – inventories of merchandise and supplies, receivables, cash, and government securities.

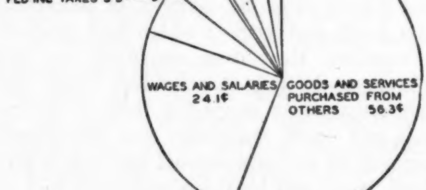
On the other side of the composite balance sheet, $53.4 billion or slightly more than three-fifths is shareholders' equity in the form of preferred and common stock, surplus or retained earnings, and surplus reserves. The remainder represents current liabilities, plus long-term debt.

These companies have 7,190,000 registered shareholders. The figure includes duplication to the extent that the same investors hold stock in two or more companies in the group. At the same time, the number of registered shareholders understates the distribution of a corporation's real ownership, because of the fact that certain holders of record are nominees or trustees representing the collective interests of many individual owners. A substantial portion of the stock of many of these companies is owned by their own employes, and large blocks are in the hands of insurance companies, investment trusts, pension trusts and non-profit institutions – educational, medical, religious, philanthropic, etc.

Where the Money Goes

What happened to the $102 billion receipts of the 100 largest corporations last year is shown in the chart and in the table on the next page, which gives the figures in dollar totals and in percentages of total receipts.

It will be seen that 56 per cent or more than half the total receipts of the group was paid out for costs of goods and services purchased from others – representing largely payments to labor in the earlier stages of production. The second item – direct wages, salaries, and labor benefits, partly estimated – averaged about $4,200 per worker and amounted to approximately 24 per cent of receipts. Thus the cost of purchases and of labor together took 80 per cent or four-fifths of the sales dollar.



Disposition of Total Receipts, in Cents Per Dollar, of the 100 Corporations Reporting Largest Sales or Revenues in 1952

Of the balance remaining after the costs of labor and of purchases, taxes took more than half. Federal income and excess profits taxes totaled $5.6 billion or 5.5 per cent of sales, while

Disposition of Receipts by the 100 U. S. Corporations Reporting Largest Sales or Revenues in the Year 1952

	In Millions of Dollars					In Percentages of Total Receipts				
	77 Mfg. Cos.	15 Trade Cos.	6 Rail-roads	2 Public Utilities	100 Cos. Total	77 Mfg. Cos.	15 Trade Cos.	6 Rail-roads	2 Public Utilities	100 Cos. Total
Total receipts from sales & other operations	$76,921	$16,362	$4,245	$4,475	$102,003	100.0	100.0	100.0	100.0	100.0
Costs:										
Costs of goods & services purchased from others, etc.	42,574	13,107	993	719	57,393	55.4	80.1	23.4	16.1	56.3
Wages, salaries, and labor benefits *	18,339	2,149	2,148	1,931	24,567	23.8	13.1	50.6	43.1	24.1
Federal income and excess profits taxes	4,552	427	211	432	5,622	5.9	2.6	5.0	9.7	5.5
Other federal, state, local, & for. taxes†	4,226	193	253	377	5,049	5.5	1.2	5.9	8.4	5.0
Interest paid	230	22	127	134	513	.3	.1	3.0	3.0	.5
Reserves for depreciation and depletion	2,464	108	208	418	3,198	3.2	.7	4.9	9.3	3.1
Total costs of operations	72,385	16,006	3,940	4,011	96,342	94.1	97.8	92.8	89.6	94.5
Net income	4,536	356	305	464	5,661	5.9	2.2	7.2	10.4	5.5
Preferred and common dividends paid	2,518	221	116	356	3,211	3.3	1.4	2.7	8.0	3.1
Reinvested in the business	$ 2,018	$ 135	$ 189	$ 108	$ 2,450	2.6	.8	4.5	2.4	2.4

* Partly estimated, on basis of payrolls reported by companies representing over 84 per cent of the total employment of the group. † Tax figures charged as costs are exclusive of general sales taxes and of special taxes on gasoline, oil, automobiles, tobacco, liquor, transportation, telephones, etc., collected and remitted by these companies.

other federal, state, local, and foreign taxes totaled $5 billion or 5.0 per cent.

Moreover, such tax figures charged as costs are exclusive of general sales taxes, and of special taxes on gasoline, oil, automobiles, tobacco, transportation, telephones, liquor, etc., collected and remitted by these companies. Figures are not available for the grand total of such additional tax collections, but for the 14 largest oil refining companies they amounted to $2,260 million. The Bell Telephone System collected from customers $615 million of telephone excise taxes, General Motors Corporation collected $472 million of automotive sales and excise taxes, and the six largest railroads collected an estimated $200 million in excise taxes on freight and passenger revenues.

These countless business taxes levied all along the line of production and distribution are a major element in the prevailing high prices of goods and services, though one whose full effect it is impossible to measure. They are an important factor in both the individual's high cost of living and the corporation's high cost of living.

Disposition of Earnings

Net income of the 100 largest corporations last year amounted to $5,661 million — which was an average of 5.5 per cent of total receipts. Profit margins varied widely among companies as a result of various factors, particularly the variation in rates of capital turnover. For example, the annual revenues of the two largest public utility systems together were only seven-tenths as large as their year-end net worth, whereas fifteen merchandising companies had sales almost five times their net worth.

To conclude the analysis of the composite statement of the 100 largest companies as given above, it will be seen that 3.1 cents out of the revenue dollar was paid in dividends to preferred and common shareholders. The balance — 2.4 cents — was reinvested in the business to finance replacement, modernization, and expansion of plant and equipment, plus building up working capital. For every $1 paid to the corporate shareholders as a return on their capital, over $3 was paid out in direct taxes, $8 in direct labor costs, and $18 for purchases of materials and services.

Contrary to opinions sometimes expressed, the widely-published operating reports of the big companies show that their huge receipts are not hoarded or stored up. Instead they are put to active use in producing goods and services for the public, buying materials and supplies, generating wages and taxes and dividends. A substantial part of the money is used to pay for the replacements and improvements needed to keep plant and equipment efficient, and to meet the demands of a nation of 160,000,000 people, growing at the rate of 2,000,000 annually. Such replacement costs today are far higher than the depreciation charges accrued at the usual rates on prewar costs.

For these various purposes the country's 100 largest corporations in the year 1952 disbursed not only the entire $102 billion of their receipts, but an additional $2.6 billion which they obtained by increasing their current and long-term indebtedness.

Thus, even the million-dollar-a-day receipts of these companies were not enough to cover their entire outlays.

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